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ABSTRACT

Under power equalization, local school tax revenues would be supplemented with State aid in such a way that all school districts that levy the same local tax rate would receive from State and local sources combined the same total income per pupil. To accomplish this the State would supplement local tax collections in low wealth school districts and require high wealth school districts to pay part of their local tax collections into a State fund. The advantages and disadvantages of this plan are defined and compared to the advantages of the foundation program in which high wealth districts are permitted to supplement the State-financed program from local tax sources. (Author/MLF)

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IS POWER EQUALIZATION THE ANSWER?

Erick L. Lindman

The basic concept of power equalization is not a new idea in public school finance. It is an old wine in a new bottle. Basically, under power equalization, local school tax revenues would be supplemented with state aid in such a way that all school districts which levy the same local tax rate would receive from state and local sources combined the same total income per pupil. To accomplish this the state would supplement local tax collections in low wealth school districts and require high wealth school districts to pay part of their local tax collections into a state fund.

An illustrative power equalization plan is shown in Chart I. In this chart it is assumed that the state has established the combined state-local revenue at $250 per pupil for each $1 per $100 levied by a school district. In the chart there are five hypothetical school districts differing in amounts of taxable wealth per pupil. District A is a low wealth district with only $5,000 in taxable wealth per pupil. District B is more nearly average with $15,000 in taxable wealth per pupil, and district C is at the break point--it neither receives aid from the state nor is required to pay any of its locally collected property taxes to the state. Districts D and E are high wealth districts and, under the power equalization plan, are required to pay part of their locally collected property taxes to the state to be distributed among less wealthy school districts.

Under this plan any school district which levies a tax rate of $3 per $100 would receive combined state and local revenues of $750 per

pupil, irrespective of its taxable wealth per pupil. The effect of this plan upon the five hypothetical school districts in Chart I is shown in the row with the indicated tax rate of $3 per $100. Note that low wealth district A receives only $150 per pupil from its $3 local tax levy and the state contributes $600 per pupil to provide the prescribed $750 per pupil. School district B receives $450 from its $3 local levy and the state contributes $300 per pupil to provide the prescribed amount. District C is able to raise the prescribed $750 per pupil from its $3 local tax rate and so it receives no additional state funds.

In school districts D and E the $3 tax rate produces more than $750 per pupil so these districts are required to remit to the state $150 per pupil and $450 per pupil, respectively, to bring their revenues down to the prescribed $750 per pupil.

If a school district chooses to spend more than $750 per pupil, say $1,250 per pupil, it would need to levy a local tax rate of $5 per $100. Moreover, this tax rate would be required in any district which spends $1,250 per pupil. This illustrates again an essential characteristic of power equalization--equal expenditure rates per pupil require equal local school property tax rates. It is this feature of power equalization which is said to meet the equal-protection-of-the-laws provision of the California Constitution.

Another essential characteristic of power equalization is the absence of a limit upon expenditures per pupil that the state is required to support. It is this "open ended" feature of power equalization which distinguishes it from the foundation program approach to public school finance. Chart II shows how the five hypothetical school districts would be affected by a foundation program of $1000 per pupil with a

computational tax rate of $4 per $100 to obtain the local share of the foundation program. Note the similarity between the foundation program and the single row of Chart I with the tax rate of $4 per $100. They are essentailly the same except that under power equalization the high wealth districts D and E are required to levy the $4 tax rate and remit the surplus local tax revenues to the state. Under the foundation program shown in Chart II these districts are permitted to levy lower property tax rates and no surplus funds are remitted to the state.

Even this difference between power equalization and the foundation program disappears if the annual revenues per pupil guaranteed for each $1 per $100 levied by a local school district are sufficient. Chart III shows a power equalization plan based upon $500 per pupil for each $1 levied by a school district. Under these conditions all districts including high wealth districts D and E are entitled to state aid and no district is required to pay part of its local property tax collections to the state.

A foundation program of $1000 per pupil based upon this higher level of state aid requires a computational tax rate of only $2 per $100. Such a foundation program is shown in Chart IV. Note that under these conditions all districts receive $1000 per pupil and are required to levy the same tax rate. Thus, the foundation program and power equalization both provide equal revenues per pupil from equal tax rates, but the foundation program establishes a definite limit upon state participation as illustrated by the $1000 per pupil, while power equalization requires state contributions for various expenditure rates per pupil at the option of the local school district. If a foundation program is defined in the usual way with a specific number of dollars

per pupil and a specific computational tax rate, it can be converted into power equalization by providing that if the school district actually levies more or less than the prescribed computational tax rate, the state contribution shall be proportionately increased or decreased. In this sense power equalization is an "open ended" foundation program. If a ceiling is placed upon the power equalization system, it becomes essentially a foundation program.

Evaluation of Power Equalization

The essential characteristics of power equalization identified in the preceding section indicate why the plan has such limited use even though it has been discussed in various forms for 50 years. Responsible state fiscal planners are reluctant to place an "open ended", unpredictable demand upon state funds. Moreover, legislators concerned about excessive local property taxation regard power equalization as an incentive to increase property tax rates.

The fiscal incentives of power equalization apply unequally among school districts. Consider the incentive effects upon the five hypothetical school districts in Chart I if each district were considering the adoption of an additional school program costing $50 per pupil. This would require an additional tax rate of 20¢ per $100 in each of the five districts, and the local and state funds per pupil would be as follows:

School District	A	B	C	D	E
Cost of Program	$50	$50	$50	$50	$50
Local Contribution	10	30	50	60	80
State Contribution	40	20	-0-	(10)	(30)

The direct economic effect upon each community would be:

Community A would contribute $10 per pupil from local taxes and receive $40 per pupil from taxpayers in other parts of the state.

Community B would contribute $30 per pupil from local taxes and receive $20 per pupil from taxpayers in other parts of the state.

Community C would contribute $50 per pupil from local taxes and receive nothing from taxpayers in other parts of the state.

Community D would raise $60 per pupil from local taxation and send $10 per pupil to other parts of the state.

Community E would raise $80 per pupil from local taxation and send $30 per pupil to other parts of the state.

With these direct economic effects, the people in communities A and B would tend to vote for the proposed school program partly because the proposal would bring money into the community. On the other hand, voters in communities D and E would be required to pay $60 and $80 per pupil, respectively, for an educational program worth $50 per pupil--a proposition they are likely to reject. Such a plan would lead inevitably to state induced and supported inequalities in educational programs.

Another weakness in the power equalization plan stems directly from its fundamental characteristic--equal tax rates produce equal revenues per pupil. This means that school districts which have unavoidable high costs per student would be required to pay high tax rates. Since most high cost school districts in California are small (in ADA) and they often have above average taxable wealth per pupil, they can now pay their higher operating costs without excessive tax rates. Under power

equalization their tax rates would be substantially above average because their operating costs per pupil are substantially above average.

Finally, the search for tax equity through power equalization is frustrated by great differences in personal income of the people who pay the property taxes. Note the following comparison between Santa Monica and Palos Verdes in Los Angeles County:

	Value of Taxable Property Per Pupil	Average Annual Family Income
Santa Monica	$31,000	$10,800
Palos Verdes	$13,800	$21,100

A comparison of assessed value of taxable property per public school pupil shows that Santa Monica has twice as much taxing capacity as Palos Verdes has. On the other hand, a comparison of average family income shows that Palos Verdes has twice as much ability to pay taxes as Santa Monica has. Such great differences in indicators of capacity to pay taxes points out that equal property tax rates do not necessarily represent equal burdens upon home owners. Moreover, under these conditions, it is quite likely that the people in Palos Verdes utilizing their greater family incomes would approve higher school tax rates and spend more per pupil under a power equalization plan. In this sense power equalization creates a new group of districts with the capacity to spend more per pupil.

These weaknesses in power equalization are enumerated to emphasize that there is no perfect system of public school support. If local supplements are permitted without power equalization, the high wealth districts have an advantage. And if all local supplements are prohibited, local participation in the budgetary process is greatly reduced. It is

for this reason that the foundation program concept has survived for so many years. Under it there has been continuous improvement in state-financed, equalized school programs without sacificing the right of the people to supplement the state-financed program from local tax sources. The effectiveness of this approach is measured by the quality of the state-financed program. In s respect, California has made considerable progress in recent years, but much remains to be done.

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Chart I

Revenues per Pupil (ADA) Under a Power Equalization Plan for Five Hypothetical School Districts with Indicated Taxable Wealth and Tax Rates-- Based upon $250 per pupil for each $1 per $100 levied.

School Districts		A	B	C	D	E
Taxable Wealth per Pupil (ADA)		$5,000	$15,000	$25,000	$30,000	$40,000
Tax Rate	Revenue Source	Amount	Amount	Amount	Amount	Amount
$3 per $100	Local	$150	$450	$750	$900	$1,200
	State	600	300	-0-	(150)	(450)
	Total	750	750	750	750	750
$4 per $100	Local	200	600	1,000	1,200	1,600
	State	800	400	-0-	(200)	(600)
	Total	1,000	1,000	1,000	1,000	1,000
$5 per $100	Local	250	750	1,250	1,500	2,000
	State	1,000	500	-0-	(300)	(900)
	Total	1,250	1,250	1,250	1,250	1,250
$6 per $100	Local	300	900	1,500	1,800	2,400
	State	1,200	600	-0-	(300)	(900)
	Total	1,500	1,500	1,500	1,500	1,500
$7 per $100	Local	350	1,050	1,750	2,100	2,800
	State	1,400	700	-0-	(350)	(1,050)
	Total	1,750	1,750	1,750	1,750	1,750
$8 per $100	Local	400	1,200	2,000	2,400	3,200
	State	1,600	800	-0-	(400)	(1,200)
	Total	2,000	2,000	2,000	2,000	2,000

NOTE: Amounts in parentheses must be paid to the state to achieve equal revenues per pupil from equal tax rates.

Chart II

Revenues Per Pupil in Five Hypothetical
School Districts Under a Foundation Program of
$1000 Per Pupil and a Computational Tax Rate of $4 Per $100

School Districts	A	B	C	D	E
Taxable Wealth per Pupil (ADA)	$5,000	$15,000	$25,000	$30,000	$40,000
Local Share	200	600	1,000	1,000	1,000
State Share	800	400	0	0	0
Total	1,000	1,000	1,000	1,000	1,000
Tax Rate Required	$4.00	$4.00	$4.00	$3.33	$2.50

Chart III

Revenues per Pupil (ADA) Under a Power Equalization Plan for Five Hypothetical School Districts with Indicated Taxable Wealth and Tax Rates--Based upon $500 per pupil for each $1 per $100 levied

School Districts		A	B	C	D	E
Taxable Wealth per Pupil (ADA)		$5,000	$15,000	$25,000	$30,000	$40,000
Tax Rate	Revenue Source	Amount	Amount	Amount	Amount	Amount
$1.50 per $100	Local	$ 75	$225	$375	$450	$600
	State	675	525	375	300	150
	Total	750	750	750	750	750
$2.00 per $100	Local	100	300	500	600	800
	State	900	700	500	400	200
	Total	1,000	1,000	1,000	1,000	1,000
$2.50 per $100	Local	125	375	625	750	1,000
	State	1,125	875	625	500	250
	Total	1,250	1,250	1,250	1,250	1,250
$3.00 per $100	Local	150	450	750	900	1,200
	State	1,350	1,050	750	600	300
	Total	1,500	1,500	1,500	1,500	1,500
$3.50 per $100	Local	175	525	875	1,050	1,400
	State	1,575	1,225	875	700	350
	Total	1,750	1,750	1,750	1,750	1,750
$4.00 per $100	Local	200	600	1,000	1,200	1,600
	State	1,800	1,400	1,000	800	400
	Total	2,000	2,000	2,000	2,000	2,000

NOTE: With the state guaranty of $500 per Pupil for each $1 per $100 levied, the high wealth districts D and E receive state aid and no payments to the state are made.

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Chart IV

Revenues Per Pupil in Five Hypothetical School Districts Under a Foundation Program of $1000 Per Pupil and a Computational Tax Rate of $2 Per $100

School Districts	A	B	C	D	E
Taxable Wealth per Pupil (ADA)	$5,000	$15,000	$25,000	$30,000	$40,000
Local Share	100	300	500	600	800
State Share	900	700	500	400	200
Total	1,000	1,000	1,000	1,000	1,000
Tax Rate Required	$2.00	$2.00	$2.00	$2.00	$2.00